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August 23, 2002

RECEIVED

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Via Electronic Filing and Hand Delivery

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Ex Parte Filing re: Application by BellSouth Corp. et al. for Provision of
In-Region, InterLATA Services in Alabama et al., WC Docket No. 02-150

Dear Ms. Dortch:

This letter is submitted on behalf of AT&T Corp. ("AT&T") in response to issues raised in BellSouth's ("BST") August 5, 2002 Reply Comments ("BST Reply"), in supporting Affidavits, and in various BellSouth ex parte submissions to the Commission. In particular, this letter addresses BST's growth tariff and pricing issues relating to switching and DUF.

BELLSOUTH'S GROWTH TARIFF

In its comments, AT&T demonstrated that BST's SWA Contract Tariff 2002-01 is a growth tariff that violates the Commission's rules. AT&T Comm. 43-51; AT&T Rep. 32-35. Since the filing of reply comments, the North Carolina Utilities Commission ("NCUC") has issued its August 13, 2002 Order Disapproving Proposed Tariff in Docket No. P-55, Sup. 1365 & 1366.¹ In that Order, the NCUC disapproved BST's SWA Contract Tariff as "biased" and "not being in the public interest." Order at 4, 5. Responding to BST's alleged interest in retaining its customers, the NCUC stated:

if the aim is to stimulate the volume of purchases (and, hence, revenue), it would better serve the public interest if the discounts offered were volume-based, instead of being based upon percentage increases over a baseline. After all, even a relatively modest percentage increase in the volume of purchases from a high-volume IXC could dwarf the

¹ A copy of the Order was provided to the Commission in the August 20 Letter from Joan Marsh to Marlene H. Dortch (Aug. 20, 2002). AT&T also understands that BST has also withdrawn its Tennessee growth tariff filing.

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increased volume coming from a low-volume IXC or a group of them. This would mean that much more revenue for BellSouth.

Id. at 5 (emphasis in original). The NCUC “encourage[d] BellSouth to experiment with volume-based discounts for access service that are not biased against high-volume IXCs.” *Id.*

The NCUC’s Order confirms AT&T’s view that the SWA Contract Tariff is a growth tariff that discriminates against large IXCs in favor of smaller market participants such as BSLD. In its reply comments and ex parte submissions, BST has nowhere rebutted AT&T’s showing. Instead, BST relies on shifting, and wholly unconvincing, explanations for why its affiliate BSLD cannot take service under the SGA Contract Tariff.

BST’s first explanation, advanced on August 5, 2002, was that BSLD had not been a BST switched access customer for 18 months: “*Obviously*, BSLD does not have ‘18 months’ local switching usage prior to the beginning of the contract” Ruscilli/Cox Rep. ¶ 76 (emphasis added). Seven days later, it turned out that “BSLD has in fact been almost exclusively a terminating switched access customer for 18 months.” Letter from Sean A. Lev to Marlene H. Dortch (August 12, 2002) (emphasis in original) (“First Lev Letter”). Then, twenty-four hours later, BSLD became a “BellSouth switched access customer with respect to both interstate and intrastate traffic” and “the nature of the BSLD switched access minutes is predominantly terminating traffic that originated outside the BellSouth region and terminating traffic that originated from wireless providers.” Letter from Sean A. Lev to Marlene H. Dortch (August 13, 2002) (“Second Lev Letter”). Clearly, BSLD’s status as a switched access customer for the past 18 months would qualify BSLD to take advantage of the Contract Tariff, and BST’s refusal candidly to admit as much is telling.

Now the claimed reason that BSLD cannot take service under the SWA Contract Tariff is that BSLD failed to sign up during the 30-day open period and BSLD does not have the minimum number of minutes to qualify. First Lev Letter at 2. BST’s claims about BSLD’s failure to meet the minimum number of minutes are plainly wrong. The Contract Tariff is based on the individual customer’s usage during the 18 prior months, and that usage becomes the baseline against which future growth (and the size of the discounts) is measured. The Contract Tariff also makes clear in Section 26.1.2.A that each carrier that signs up for the Contract Tariff must agree with BST on the “Minimum Usage Discount Table.” The “Minimum Usage Discount” is a negotiated number for each participating carrier based on that carrier’s usage for the prior 18 months. BST’s attempt to argue that the Contract Tariff contains an absolute minimum usage amount that all potential carriers must satisfy (and therefore stands as an impediment to BSLD taking service under the Contract Tariff) is nothing more than after-the-fact spin.

BST also attempts to claim that there is no Section 272 issue because BSLD cannot take service under the SWA Contract Tariff. This is not correct. Even assuming, *arguendo*, that BSLD cannot take service under BST’s SWA Contract Tariff, the Commission’s pricing flexibility rules allow an ILEC to provide service under a contract tariff to its long distance

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affiliate only after the ILEC certifies that it provides service under the contract tariff to an unaffiliated carrier. 47 C.F.R. § 69.727(a)(2)(iii). This provision specifically references both Section 272 for the definition of the "long-distance affiliate" and 47 C.F.R. § 64.1903 relating to obligations of ILECs with respect to their long-distance affiliates under Section 272. Accordingly, any effort by BST to use SWA Contract Tariff to meet its certification requirements under 47 C.F.R. § 69.727(a)(2)(iii) clearly raises Section 272 concerns. As BST has now made clear that BSLD has been a switched access customer for 18 months, there is no impediment to BST entering into the same arrangement with BSLD once BST certifies that it provides service under the SWA Contract Tariff to an unaffiliated party. As AT&T has demonstrated in its prior comments, it would clearly be inconsistent with Section 272 for BST to enter into such a growth arrangement under the SWA Contract Tariff with BSLD. Given BST's dissembling with respect to BSLD's eligibility to take service under the SWA Contract Tariff, BST cannot demonstrate that it complies with Section 272 unless it agrees not to use the SWA Contract Tariff as the basis for a future Contract Tariff with BSLD or to certify under 47 C.F.R. § 69.727(a)(2)(iii) that it is providing service under SWA Contract Tariff and is thus eligible to enter into a similar arrangement with BSLD.

SWITCHING COSTS

AT&T demonstrated in its comments that BST's switching costs do not comply with TELRIC principles. AT&T Comm. 34-39; Pitts Dec.; Pitts Reply Dec. BST raises a number of issues in its reply comments, but as shown below and in the Supplemental Reply Declaration of Catherine Pitts ("Pitts Supp. Rep."), attached hereto as an Appendix, BST's arguments do not rebut AT&T's showing.

In its reply comments, BST provides more information on its feature cost methodology and use of averages in developing feature rates. But these explanations merely confirm AT&T's point that the use of averages for disparate features based on different platforms is incompatible with cost-based ratemaking. Recent evidence in the North Carolina UNE proceeding provides further evidence that BST's use of simple averages to develop feature costs yields a bogus result. Pitts Supp. Rep. ¶¶ 3-4. Fundamentally, BST cannot explain how various features with disparate functions (some deployed on a per line, per trunk group, or per attendant basis) can be placed on a common platform that takes into account costs and usage. This is fruit salad ratemaking, not TELRIC, and BST's "data" in support are unsubstantiated and meaningless. *Id.* ¶¶ 6-7.

These methodological problem carry over to BST's new flat port rate that relies on the 55% take rate. BST relies on unsubstantiated calculations that yield an extremely high average number of features per line. The only way such a high number of features per line can exist is through bundling of features, but in such a case, this average is overstated because the customer receives features in the bundle in which he has no interest. As a result, actual usage of features (on which BST bases its features costs) will be much lower, and BST fails to provide any justification that ties together the number of features per line, feature usage, and feature costs. Pitts Supp. Rep. ¶ 9.

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BST seeks to justify its features rates by drawing various comparisons with New York rates. Caldwell Rep. ¶¶ 122-26. Such an effort compares apples and oranges given the significant differences in the Verizon and BST ratemaking studies. Pitts Supp. Rep. ¶¶ 10-11. Even though a comparison of BST's hardware-related feature costs with New York's is flawed, correcting for some of BST errors shows that BST's hardware-related features cost is significantly overstated once feature penetration rates are appropriately taken into account. The average feature cost per line is \$0.13 rather than \$1.22 as calculated by BST. *Id.* ¶ 11.

In its comments, AT&T showed that BST violated TELRIC principles by relying on its embedded base in determining the appropriate switch discount. Contrary to BST's claims, its contracts with switch vendors provide an appropriate basis for determining switch discounts.² Moreover, AT&T's proposal to use a melded discount that models on a net present value basis new switches in BST's existing wire center locations and growth/add-on investment for future investment over the life of the switch is consistent with TELRIC principles. BST's reliance on its embedded switches and overemphasis on growth/add-on investment is not. Pitts Supp. Rep. ¶¶ 12-14.

AT&T also showed that getting-started costs are fixed and should be allocated to the port because the switch exhausts on ports and not on call capacity. AT&T Comm. 38-39; Pitts Dec. ¶¶ 11-16. BST seeks to justify its allocation of getting started costs to traffic-sensitive element by citing statements of switch manufacturer literature that it claims support its positions. Caldwell Rep. ¶¶ 91-92. These statements do not alter the reality that BST's switches do not exhaust on call capacity. If the switch is not expected to exhaust, then the cost is fixed and should not be allocated to traffic-sensitive elements as BST has done. Pitts Supp. Rep. ¶¶ 17-19.

DUF

In its prior comments, AT&T showed that BST's DUF rates are overstated and riddled with clear TELRIC errors. AT&T Comm. 30-34; AT&T Rep. 28-29; Turner Dec. In its reply comments, BST seeks to cover up the plain inadequacies of the DUF cost studies on which it relies. Caldwell Rep. at ¶¶ 43-47; BST DUF Ex Parte.³ The record in this proceeding, however, refutes BST's arguments.

As an initial matter, BST mischaracterizes the status of the proceedings in claiming that AT&T has failed to raise DUF rate issues before state commissions. BST DUF Ex Parte at 1; Caldwell Rep. ¶ 43. As demonstrated in AT&T's reply comments, AT&T Rep. 28 n. 28, the

² Ms. Caldwell's affidavit includes an *ad hominem* attack on Ms. Pitts and her status as an expert in claiming that Ms. Pitts has not reviewed the BellSouth contracts. Caldwell Rep. ¶ 73. Ms. Caldwell's own exhibits (Caldwell Ex. DDC-18) include testimony in the Georgia UNE proceeding in which Ms. Pitts categorically states that she has reviewed *all* the BellSouth contracts made available to her. Pitts Supp. Rep. ¶ 13 n.8. BellSouth should withdraw that portion of Ms. Caldwell's testimony.

³ See Letter from Glenn T. Reynolds to Ms. Marlene H. Dortch (Aug. 14, 2002) ("BST DUF Ex Parte").

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BST DUF rates for Alabama, Mississippi, North Carolina, and South Carolina on which it bases its Section 271 application are SGAT rates that were filed after the completion of state ratemaking proceedings (or in the case of North Carolina, during the pendency of the current ratemaking proceeding). As a result, BST cannot claim that those rates have been reviewed in state cost proceedings. Instead, BST argues that AT&T made similar arguments in the Georgia/Louisiana II proceeding that were rejected by the Commission. BST DUF Ex Parte at 1. The Commission, however, never addressed the merits of AT&T's claims but rather declined to review AT&T's criticisms of the Louisiana DUF rates because AT&T had not raised those objections before the Louisiana commission. That principle does not apply in this case where the DUF rates at issue were not reviewed by the states in the state ratemaking cases, and as a result the clear TELRIC errors in BST's DUF studies and rates raised by AT&T are properly subject to Commission review. Accordingly, BST's plea to the Commission not to review its deficient DUF rates must be rejected.

AT&T has demonstrated that BST's cost studies fail to assess total DUF costs against the total volume of DUF messages. AT&T Comm. 32; Turner Dec. ¶¶ 26-30. BST claims that its cost study differentiates between functions that "share" costs and those costs that are "dedicated" to CLECs or BST. Caldwell Rep. ¶ 43. That is not the point. As demonstrated in the Turner Dec. (¶¶ 29-30), BST makes arbitrary allocations of costs to processes that are allegedly used only by CLECs. BST's billing organization performs message processing for *all* messages – CLECs and BST – and therefore there is no reason to allocate cost to CLEC messages in the first place. BST's approach assures that CLECs incur a disproportionate share of the costs and do not share in the economies of scale that BST enjoys.

AT&T has also demonstrated that BST uses inconsistent cost recovery periods. AT&T Comm. at 32-33; Turner Dec. ¶ 31-32. BST's limp response is that the Commission has never mandated any particular cost recovery period. Caldwell Rep. ¶ 47. BST concedes that the ODUF per message investment should be depreciated over five years (*id.*) and provides no reason why the ODUF cost study should not similarly recover ODUF costs over five years. The fact that the cost study period is only three years is irrelevant.

BST cites Accounting Statement of Position ("SOP") 98-1 in support of its expensing certain computer development costs. Caldwell Rep. ¶ 51. Pursuant to paragraph 15 of SOP 98-1, that statement does not apply to computer software that is used or marketed to third parties. As BST is marketing the DUF software development and processes to CLECs as an unbundled element, the provisions of SOP 98-1 do not apply, and instead, Statement of Financial Accounting Standards No. 86 ("Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed") applies and requires the capitalization of computer software products and all of their associated costs once technological feasibility of the product is established.

In response to AT&T's showing that BST has underestimated demand for DUF messages, AT&T Comm. 33-34; Turner Dec. ¶¶ 37-38, BST argues that its 2000 data estimates

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are more appropriate for use in the cost study than Turner's 2001 data. The reality is that the DUF messages have grown significantly with increases in UNE-P traffic, and BST's use of 2000 data understates the number of messages over which DUF costs should be spread. BST's refusal to use more current data showing that DUF traffic has grown is simply an attempt to increase CLEC DUF costs. Given that it is now August 2002, the actual results for 2001 are and have been available to BST for several months. The 2001 actual results confirm that the growth in DUF message processing described in the Turner declaration.

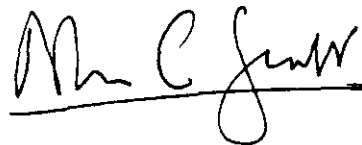
BST seeks to manufacture an inconsistency in Turner's testimony by arguing that Turner's claim that BST is overstating the number of required OCNs contradicts his claims of DUF message growth. BST DUF Ex Parte at 3-4. The truth is simple. OCNs are used to track messages by different CLECs. As the current state of the telecommunications industry demonstrates, the number of CLECs is static or likely to decline in the future, and therefore the number of OCNs (and costs associated with OCNs) will not grow at the levels projected by BST. By contrast, the number of DUF messages will continue to grow with the increase in UNE-P traffic among the remaining CLEC competitors.

CONCLUSION

For the reasons stated herein and in AT&T's prior filings, BST's Section 271 application should be denied.

Consistent with Commission rules, I am filing one electronic copy of this notice and request that you place it in the record of the proceeding.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Alan C. Geolot", with a horizontal line drawn underneath the signature.

Alan C. Geolot

Attachment

cc: M. Brill
M. Desai
A. Goldberger
J. Goldstein
D. Gonzalez
C. Libertelli
T. Preiss
D. Shetler

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of

**Application of BellSouth Corporation,
Pursuant to Section 271 of the
Telecommunications Act of 1996
To Provide In-Region, InterLATA
Services In Alabama, Kentucky,
Mississippi, North Carolina and South
Carolina**

WC Docket No. 02-150

**SUPPLEMENTAL REPLY DECLARATION OF CATHERINE E. PITTS
ON BEHALF OF AT&T CORP.**

I. QUALIFICATIONS

1. My name is Catherine E. Pitts (formerly Petzinger). I am the same Catherine E. Pitts that filed a Declaration in this proceeding on July 11, 2002 and a Reply Declaration on August 5, 2002. My qualifications are set forth in my July 11, 2002 Declaration.

II. SUMMARY AND PURPOSE OF TESTIMONY

2. This supplemental reply declaration responds to points raised in the Reply Affidavit of D. Daonne Caldwell ("Caldwell Rep.") and the Joint Reply Affidavit of John A. Ruscilli and Cynthia K. Cox ("Ruscilli/Cox Rep."). In its reply testimony, BellSouth seeks to justify its feature cost methodology, but that testimony merely demonstrates that its attempt to develop an "average" cost for features does not yield cost-based rates. BellSouth's justification for the 55% take rate used in computing the features component of the port charge is both unsubstantiated and based on

questionable data that, when combined with its defective averaging methodology, yields rates that are in no way cost based. BellSouth's comparisons of its feature rates with those of New York are inapposite given the different cost methodologies used by Verizon and BellSouth and, when adjusted, show that BellSouth's feature hardware costs are vastly overstated. BellSouth inappropriately relies on its embedded base in calculating switching investment, in clear violation of TELRIC principles, overstating the percentage of growth/add-on switches and failing to use an appropriate level of new or replacement switches in determining switching investment. Finally, BellSouth argues that getting started costs are traffic-sensitive, even though its own workpapers and switching data show that modern digital switches exhaust on ports and not as a result of call capacity.

III. FEATURE COSTS

3. Ms. Caldwell attempts to support the deficient "averaging" methodology used in its feature cost development by claiming that the 56 features reviewed reflects the mix of features that use different resources in the switch. Caldwell Rep. ¶ 107. This argument, however, totally ignores my principal objection that a mix of features reflecting different types of functions used in a switch neither bears any relationship to the mix of features that actually are in the switch or to incremental costing principles.

4. Ms. Caldwell acknowledges the various issues in developing features costs (*id.* ¶¶ 102-04), but her attempt to justify BellSouth's feature cost methodology and specifically its hardware costs does not withstand scrutiny. Ms. Caldwell concedes that BellSouth's methodology does not develop actual feature costs; instead, the SST model BellSouth uses "develops the cost of a composite feature that is

an average, i.e., this feature never really exists in the switch.” *Id.* ¶ 109. As I described in my initial and reply declarations, however, averaging the costs of different hardware components together, without reflecting the relative weightings of the different components, is inappropriate. Recent information from the North Carolina proceeding confirms that averaging the costs of highly used and little used feature components with a simple arithmetic average is fundamentally flawed. When asked how many three-port conference circuits and six-port conference circuits, BellSouth responded with the following counts for all switches in North Carolina¹:

Three port conference circuits – 4,657
Six port conference circuits – 1,190

It is clearly inappropriate to simply average the cost of a three-port circuit with the much higher cost of a six-port circuit in an attempt to reflect the average hardware in a switch, but that is exactly what BellSouth has done.² Even if BellSouth’s estimation of usage of these circuits were correct (and they are not), multiplying the usages by the inappropriately averaged cost per circuit would still produce a bogus result.

5. Regarding the usage inputs, Ms. Caldwell claims that 4.5 calls are not assumed in the feature cost methodology and argues that the appropriate standard is feature attempts. Caldwell Rep. ¶¶ 111-12. This is hair-splitting. The examples that Ms.

¹ BellSouth Response to ATT/WorldCom’s 1st Interrogatories, Item No. 29 in North Carolina UNE proceeding, Docket No. P-100, Sub 133d.

² BellSouth’s August 8, 2002 ex parte includes an attachment showing the purported cost of a 3-port and 6-port conference circuit. *See* Letter from Sean A. Lev to Marlene H. Dortch, Secretary, FCC (August 8, 2002) (proprietary). I do not necessarily agree with the costs, but the relationship between the two is reasonable. The attachment labeled SST-Usage Hardware special study shows that a three-port circuit is ***BEGIN
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Caldwell provides (three-way calling, speed dialing, and terminating features, such as call waiting, hunting, and CLASS features such as Caller ID) all involve calls, and it is a rare occurrence indeed when a feature activation or deactivation occurs without a call in progress.

6. Ms. Caldwell argues that it is “irrelevant whether the feature is deployed on a per line, per trunk group, or per attendant basis.” Caldwell Rep. ¶ 113. But she does not -- and cannot -- explain how these disparate functions are placed on a common platform that takes into account the costs and usage of these incompatible feature characteristics. This is fruit salad ratemaking, not TELRIC.

7. BellSouth has provided updated Georgia usage data that purports to show that the costs for the hardware portion of the feature cost would increase. Caldwell Rep. ¶ 114. There are two problems with BellSouth’s data and conclusion. First, the usage data are unsubstantiated and have the same credibility as BellSouth’s data that estimated usage levels of features that had no customers. *See* Pitts Rep. Dec. ¶¶ 3-4. Second, BellSouth concludes that its hardware cost would increase because of increases in the usage of features that use hardware. But BellSouth has never demonstrated that its feature hardware costs are cost-based, and these costs bear no relationship to the amount and types of equipment that provide features in a switch. Multiplying a bogus hardware cost number by a questionable usage input (even if updated) does not validate BellSouth’s feature cost at all.³

³ Ms. Caldwell’s claim (Caldwell Rep. ¶ 121) that my declaration in this case is inconsistent with my prior state testimony on BellSouth’s SST model is wrong. She ignores my prior criticisms of BellSouth’s SST model and its deficiencies and the basic and consistent criticism that I made in both the Florida and Georgia proceedings that the SST model inappropriately seeks to average inappropriate and disparate feature inputs.

8. BellSouth's seeks to justify its defective feature cost methodology by arguing that BellSouth cannot know what features the CLECs will order. Caldwell Rep. ¶ 113. If CLECs were to order switch features that actually did cause BellSouth to incur incremental feature investment, then BellSouth could request a rate review. It is premature and irrelevant to guesstimate how CLECs will purchase features in the future.

9. BellSouth's explanation for its 55% take rate is unsubstantiated and questionable. According to BellSouth, *see* Ruscilli/Cox Rep. at ¶ 33, Proprietary Ex JAR/CKC-2, the 55% take rate is based on the number of customers that have one or more features on their line. BellSouth's feature study assumes that each customer has approximately 4 features per line. The average number of features per line for lines with features as listed on Proprietary Ex. JAR/CKC-2 is *****BEGIN CONFIDENTIAL*****
*****END CONFIDENTIAL*****, which is extremely high and totally unsubstantiated. The only way that BellSouth can have such a high number of

The summary of my Florida testimony explicitly stated the fundamental problem with the SST model:

The Hardware Study uses incorrect investments, incorrect capacities and utilization adjustments that produce inflated hardware costs for features.

The entire conceptual methodology of averaging disparate feature inputs together in an attempt to force the costs to fit a theoretical feature category, and making broad assumptions that are used as critical inputs is flawed.

In fact, as Ms. Caldwell acknowledges, based on my criticisms of the SST Model, Caldwell Rep. ¶ 101, the Florida Commission ordered BellSouth to make certain adjustments to the SST model, but these adjustments did not address the fundamental problems with the SST model's averaging methodology. In Georgia, BellSouth filed a "corrected" version of the SST model with some adjustments to hardware capacities and costs, but these few adjustments did nothing to correct the underlying averaging problems and other model deficiencies. In my view, even after the Georgia and Florida proceedings, BellSouth's hardware capacities assume some level of average utilization that has not adequately identified or explained.

features per line is through bundling of several features, but in such a case, the bundling means that actual usage of the features is significantly less as customers receive features in the bundle in which they have no interest. As BellSouth's feature study is based on feature usage that cause increases in costs, BellSouth cannot simply cite to its unsubstantiated number of features per line but must demonstrate that features usage is consistent with the feature costs. Given the problems with BellSouth's averaging methodology as described above and in my prior declarations, there is no way BellSouth can make that showing.

IV. BELLSOUTH FEATURE COST COMPARISON TO NEW YORK FEATURE RATES

10. BellSouth attempts to justify its feature rates by reference to rates in New York. Caldwell Rep. ¶¶ 122-26. This effort compares apples and oranges and is inappropriate given that New York and Georgia used different cost studies and different assumptions. BellSouth's analysis involved two separate comparisons: one of them purports to compare the portion of BellSouth feature costs that is not related to hardware to a differential cost in the New York UNE minute of use rate and its terminating call cost without features reciprocal compensation rate; the second comparison is between BellSouth's portion of its feature costs that are purportedly caused by hardware and the Verizon New York feature port additive rate elements. BellSouth cites to the New York's reciprocal compensation "terminating call cost without features" rate and claims that the difference between this rate and the New York UNE MOU rate somehow reflects the incremental costs for features. But Verizon's reciprocal compensation "terminating

call cost without features” rate is a misnomer⁴ and was developed basically to lower Verizon’s reciprocal compensation obligations. It is also unclear how Verizon developed its terminating call cost without features numbers in New York because Verizon used a different model than it used for developing other switch-related rate elements. Based on Verizon’s testimony and cost study calculations in Pennsylvania, Maryland, and Virginia, however, Verizon develops its reciprocal compensation terminating call cost by removing all getting started costs and all right to use fees from the terminating call cost. BellSouth, on the other hand, includes its getting started costs in its development of features costs and in the determination of both originating and terminating costs. In light of this different treatment of getting started costs, it is inappropriate to compare BellSouth’s non-hardware feature costs to the difference between originating and terminating usages rate in New York.

11. BellSouth also claims that its costs included in the hardware portion of its feature port additives are equivalent to the New York feature port additive rates. Caldwell Rep. ¶¶ 125-26. This comparison is also inappropriate due to Verizon’s use of a different methodology to compute its feature costs and the different cost structures in New York and the BellSouth states. Even if there were some basis for making a comparison, BellSouth simply adds up a group of features for a total feature cost and compares to figure to its hardware portion of the feature cost. This is a misleading comparison because it assumes that every feature’s cost will contribute equally to a total feature cost, a flawed approach that appears throughout BellSouth’s

⁴ Even BellSouth mentions features that are associated with terminating calls, such as multi-line hunting, call waiting, etc. Therefore BellSouth’s assumption that terminating calls do not involve features is false.

methodology. Even though a direct comparison is not appropriate, the only valid basis for comparison is to use the New York rates in conjunction with the penetration ratios for the features and then compute the average hardware-related feature cost. This comparison produces the following results:

NY Features	NY Monthly Rate	NC Penetration	Total Cost
Three Way Conference ⁵	\$.88	19%	\$0.04
Anonymous Call Rejection	\$.06	0%	\$0.00
Automatic Call Return	\$.33	10%	\$0.03
Calling Number and Name Delivery	\$.17	30%	\$0.05
Custom Ringing	\$.52	0%	\$0.00
Automatic Call Back	\$.33	0%	\$0.00
Distinctive Ringing	\$.03	4%	\$0.00
Avg. feature cost per line ⁶			\$0.13

The \$0.13 per every line for features compares to \$1.22 per line for BellSouth's hardware-related features.⁷ When the appropriate comparison of feature costs is made, BellSouth's feature costs are far in excess of New York's feature port additives.

V. SWITCH VENDOR CONTRACTS

12. BellSouth claims that I ignored the fact that "equivalent lines" in the switch contracts are not the same as actual lines. Caldwell Rep. at ¶ 69. That is not correct. Equivalent lines are simply a measure that switch vendors use to determine the cost of the different types of lines (analog, digital, etc.) and explicitly include the costs

⁵ I have replaced the six-way calling feature in BellSouth's table with three-way calling because six-way calling is not included in BellSouth's list of 56 feature penetrations.

⁶ This would be the average feature cost for every line, not just lines with features.

⁷ Caldwell Rep. at ¶¶ 125-126. \$1.22 is BellSouth's estimate of feature hardware costs in South Carolina. Even if the feature penetrations were double North Carolina's penetrations, the comparison proves the inappropriately high cost BellSouth seeks to charge for features in North Carolina and is charging in Kentucky and South Carolina. The equivalent hardware cost in North Carolina is \$1.75 (74% of the proposed \$2.38 is

for *****BEGIN CONFIDENTIAL*****

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CONFIDENTIAL*** to carry the line originated traffic. As I explained in great detail in the recent Georgia UNE proceeding, the determination of the number of equivalent lines per switch was calculated by BellSouth itself in its cost study workpapers, thereby allowing parties to multiply the “equivalent line” contract price by BellSouth’s own calculation of the number of equivalent lines to produce a total price per switch.

13. BellSouth vacillates between claims that its switch vendor contracts are too complicated to use to determine switch prices and that the contracts do not have enough detail.⁸ The contracts are not unduly complicated – in fact, these contract prices are straightforward, with detailed descriptions of how to calculate

associated with feature hardware).

⁸ See BellSouth Reply at 37. Ms. Caldwell also argues that I cannot be an expert on BellSouth’s contracts because I “admit [I] did not fully research them.” Caldwell Rep. at ¶ 73. Her evidence is a quotation from a deposition in which I stated that I had not reviewed the entire contract. Relegated to a footnote is a reference to the actual Georgia hearing. Ms. Caldwell neglected to set forth the quotation from that hearing in which I stated unequivocally that I had reviewed the entire BellSouth Georgia contract after the deposition: “I have since reviewed the entire contracts, and my conclusions remain the same.” In response to a subsequent question about the timing of my review, I stated: “I went back and made sure that there wasn’t something in there that I had, you know, missed.” Just to make the issue even clearer, on redirect, I was asked if I had reviewed BellSouth’s contracts, and I stated, “Yes, I reviewed even ones that I had reviewed before, just to make sure I didn’t miss anything.” When asked if I had reviewed “every single contract that BellSouth provided to [AT&T]”, I responded, “Yes, that’s correct.” Ms. Caldwell had the truth available to her; indeed, she appended the Georgia transcript to her testimony as Caldwell Exh. DDC-18, at pages 1587-88, 1612, but she was apparently content to claim that I had not reviewed the BellSouth contracts.

One problem has been that BellSouth makes reviewing its switch vendor contracts extremely difficult. Unlike SBC and Verizon, BellSouth has refused to provide open access to its contracts. Originally, the contracts could be viewed only at BellSouth’s offices in Atlanta, but now BellSouth has apparently relaxed that policy. BellSouth has in the past refused to allow any copies of the contracts to be made, making review an extremely cumbersome and difficult process.

“equivalent lines.” Indeed, Ms. Caldwell includes a description of how to calculate equivalent lines in her proprietary Exhibit DDC-4. At first glance, these instructions appear complicated, but once the acronyms and abbreviations are understood, a switch engineer would have little problem calculating the cost of a switch using this equivalent line calculation. BellSouth’s claim that there is not enough detail in the contracts to determine a switch price is naïve at best. BellSouth’s purchases of end office switches are governed by these contracts, and BellSouth surely is not claiming that it cannot determine the total price it will pay for switches from its own negotiated contracts and will know the price only after the fact.

14. BellSouth’s alternative to use of its contract information was to review a small number of switch purchases in 1998. BellSouth’s claim that these purchases do not represent a “sample” is misleading. Caldwell Rep. ¶ 74. It may be true that the entire population of switch purchases for 1998 was collected, but the price information is then applied to all switches in BellSouth’s territory, making the limited number of switch purchase prices a very small sample used to reflect the price of all switches in BellSouth. As I described in my initial declaration, when the switch price per line BellSouth calculates from the sample purchase data is applied to all switches, the total price exceeded what BellSouth itself calculated in its workpapers from its contract price that does take into account “equivalent lines.” Pitts Dec. ¶ 6. A small number of historical switch purchases do not match the switch sizes, number and types of remote switches, or the forward-looking switch components assumed in BellSouth’s switch cost study.

VI. MELDING

15. BellSouth claims that my proposal to use an appropriate melding of new and growth/add-on switches in developing an appropriate long run, net present value for the switch discount involves “mathematical gyrations.” Caldwell Rep. ¶ 75. More specifically, BellSouth complains that the method is deficient because it requires assumptions about the life of the switch, the cost of capital and an annual growth rate. Such criticism is unfounded. Each of these assumptions is a standard, required assumption in cost studies, including BellSouth’s.⁹ In any event, BellSouth’s reliance on a historical snapshot to develop the ratio of new versus growth investment, using its actual purchases in 1998, is totally contrary to TELRIC’s requirement that embedded plant be ignored and that new switches be used in the existing wire center locations. BellSouth’s reliance on the embedded base is a clear TELRIC error that inappropriately relies too heavily on growth/add-on switches rather than new switches as required by TELRIC principles. My proposal goes further and appropriately takes into account the growth in lines over the life of the switch. BellSouth’s approach fails to take account of the requirement under TELRIC that new switches (and the appropriate new switch discounts) be modeled in determining the long run switch investment.¹⁰

⁹ BellSouth also complains that my annual growth factor is unsubstantiated. BellSouth has obviously ignored my explanation that the method of calculating the meld of new and growth lines was a proposal that allowed the adjustment of the assumptions to correspond to specific circumstances. Pitts Dec. ¶ 8 n.8.

¹⁰ The same problem exists with BellSouth’s trunking assumptions. Caldwell Rep. ¶¶ 78-81. BellSouth relies on the claim that only offices that grow by a certain percentage are eligible for the DNUS, which is the efficient, forward-looking trunking equipment for the vast majority of end office host and standalone switches and tandem switches. BellSouth’s growth assumption may be appropriate when determining add-on equipment for the embedded network, but TELRIC principles reject the use of the embedded network in modeling costs. If a new switch is being used, as required by

16. Ms. Caldwell's musings (Caldwell Rep. ¶ 75) about what the switch vendor contract prices would be if the mix of new and growth purchases were different are simply conjecture and irrelevant. These conjectures are also misplaced. Indeed, Ms. Caldwell noted in her testimony that Nortel has at times offered switch contracts with prices that do not differentiate between new and growth equipment. *Id.* at ¶ 67. Ms. Caldwell ignores the underlying concept that switch prices have been declining for both new and growth switching equipment and that legal contracts itemizing the current price of switches are the best estimate of forward-looking switch costs.

VII. MISALLOCATION OF FIXED COSTS

17. Ms. Caldwell attempts to justify BellSouth's allocation of fixed getting started costs to usage and feature elements by claiming that Telcordia's model has *always* had a report that fully allocates the getting started costs to processor capacity. Caldwell Rep. ¶ 97. The Telcordia model report that does allocate fixed costs was designed in the 1970s when analog switches were highly processor-constrained and long before TELRIC principles were defined.¹¹ The Telcordia model does not have any output reports that are identified as TELRIC or that report the cost of unbundled network elements. BellSouth has complete control over how it uses the outputs from the Telcordia models in its SST model. The SST model is where BellSouth assembles the various SCIS/MO investments and other costs to build the cost of unbundled network

TELRIC, BellSouth's specific guideline is irrelevant, as the total current traffic would determine the deployment of the DNUS.

¹¹ Telcordia's model has multiple reports, some of which do *not* allocate fixed costs to processor capacity, but report it as a total fixed cost.

elements. Thus, BellSouth cannot rely on Telcordia as justification for its flawed cost methodology.

18. Ms. Caldwell's extensive quoting of switch manufacturer documents that provide call capacities for the central process (related to getting started costs) and the Lucent switch module (related to EPHC costs) misses the entire cost-causation principle at issue. Even if the switch manufacturer quotes its switch capacities in terms of calls or processing realtime, the critical issue is whether BellSouth's switches will exhaust this quoted capacity limitation.¹² If a component, even one with stated capacities, is never expected to exhaust, the cost is "fixed" and should not be recovered via a traffic-sensitive rate element as BellSouth does with the getting started cost. The Lucent documentation quoted by Ms. Caldwell describes the switch manufacturer's capacity ratings of its switch modules in terms of processor realtime (and other usage-related capacities), but again, it is not the theoretical engineering capacity limitations that are relevant. A review of BellSouth's SCIS/MO outputs demonstrate that every switch has substantial excess switch module processor capacity because the switch module

¹² Ms. Caldwell's claim that there are no field reports regarding its switch processors' utilizations (Caldwell Rep. at ¶ 88) is curious and incorrect. Switches produce traffic and maintenance reports that show the level of utilization for the processors. In addition, BellSouth's switch utilization estimation techniques are highly questionable. When BellSouth attempts to calculate processor utilizations using assumptions about current traffic and annual growth, many switches showed a negative utilization at the time the switch was cutover. See Response to ATT/WorldCom's 1st Interrogatories, in North Carolina UNE proceeding, Docket No. P-100, Sub. 133d, Item No. 24, Attachment No. 1, Step 5 in which BellSouth described its calculations as follows: "Subtracting the results of step 4 from the results of step 3 establishes the % Util. At Service Date of the Switch. It must be noted that in most cases this calculation resulted in a number less than 0. This is impossible since all the switches processed calls when they were cut."

exhausted on the number of ports long before the call or traffic capacities could be utilized.¹³

19. Ms. Caldwell's statements (Caldwell Rep. ¶ 91) that ports do not limit the switch module processor (SMPU) is correct, but misleading. The cost in question here is the subcategory of costs that SCIS/MO reports as EPHC costs and is not just the cost of the switch module processor, but is essentially the common equipment in the switch module itself. The number of ports exhaust the capacity of the switch module before the SMPU can be fully utilized. Therefore, true cost causation is ports, as Ms. Caldwell admits at paragraph 91 of her reply affidavit, because the number of switch modules required is driven by ports, not by calls or other usage.

VIII. CONCLUSION

20. BellSouth's reply testimony does not rescue BellSouth's flawed features cost methodology or address the clear TELRIC errors in BellSouth's determination of switch cost investment. For these reasons, BellSouth fails to meet the requirements of check list item 2 of Section 271.

¹³ The SCIS/MO reports identify this excess capacity and include it as a subcomponent of the total port cost because the exhaustion of the ports capacity on the switch module caused the excess capacity cost.

I declare under penalty of perjury that the facts stated herein are true and correct,
to the best of my knowledge, information and belief.

/s/ Catherine E. Pitts

Catherine E. Pitts

August 22, 2002